

Statement of Lionel C. Johnson
Vice President and Director, International Government Relations
Citigroup Inc.
Before the Committee on Finance
United States Senate
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Mr. Chairman, members of the Committee on Finance, my name is Lionel C. Johnson, and I am Vice President and Director of International Government Relations of Citigroup Inc. I am also a board member of the US-Vietnam Trade Council and chair of the Vietnam Committee of the US-ASEAN Business Council.

I appreciate this opportunity to appear before you regarding the normalization of US-Vietnam Trade relations. In particular, I wish to address the importance of quickly approving the US-Vietnam Bilateral Trade Agreement (BTA).

Vietnam holds tremendous potential as a market for US products and services. The country has a population of 78 million people, more than half under the age of 25, and significant infrastructure and human development needs. Vietnam is a country that deserves our attention and, importantly, our support for the reform process currently underway. Just as NAFTA helped to solidify Mexico's economic reforms, and China's WTO accession will accelerate the positive economic movement there, so too will the BTA support progress in Vietnam. The BTA can contribute to an open, market oriented economy with tremendous benefits for the people of Vietnam, as well as businesses and workers throughout the United States.

Although significant opportunities exist for firms seeking to do business in Vietnam, US companies have been disadvantaged in comparison to their international competitors. **First**, because the US did not have diplomatic relations with Vietnam until 1994, our business engagement lagged behind that of companies from other parts of the world that had been there for years.

Second, US firms were previously hampered by their inability to access government-backed financing and insurance from the Export-Import Bank and the Overseas Private Investment Corporation. America's private sector would simply not be competitive in Vietnam without access to Eximbank and OPIC programs. Our European and Asian competitors have dedicated significant government resources toward developing market share in Vietnam. To be competitive, US companies need continued access to government financing. Without it, they would be forced to secure that financing in third countries. As a condition of securing that financing, they would be required to source their products in those countries. That means they would not be buying Caterpillar tractors, or GE turbines, or other products produced in the United States. And that means that the jobs that would have been created here to build those products would instead go to those countries.

Third, the lack of a BTA and normal trade relations status for Vietnam has put US firms at a disadvantage in investing in Vietnam, moving goods in and out of the country, and it has left us without strong protections for intellectual property and investments, or fair access for services and agricultural products.

Citigroup/Citibank in Vietnam

Citigroup's largest member company, Citibank, has operated in Vietnam since 1993, when US trade restrictions eased, permitting our firms to establish representative offices. Today, there are 26 foreign banks operating in Vietnam. Citibank, with branches in both Hanoi and Ho Chi Minh City, is one of the largest foreign banks in Vietnam. JP Morgan Chase and Bank of America are the other US banks, and both have a limited single branch presence.

The Citigroup/Citibank objective is to become a major (in terms of market share) participant in the Vietnamese financial and capital markets by providing state-of-the-art financial services and products to corporate, institutional and individual clients. Although only the Citibank corporate bank is currently present, the size and demographics of the country will make it an attractive market for debt and equity securities, asset management, securities brokerage and trading, insurance and consumer banking. All of these sectors exist today but are still in the start-up mode, and none are significant in size.

The BTA will open new markets, increase access for foreign financial institutions and will level the playing field, which will certainly help Citigroup/Citibank to achieve its objective.

Vietnam's Financial Sector Post BTA

At present, the financial and capital markets in Vietnam are significantly underdeveloped, unsophisticated and inefficient. They cannot provide the financial products and services needed to sustain economic growth – indeed they are a drag on economic and social development. Poor performance and past failures have caused the public to lose confidence in the financial sector in general and the commercial banks in particular.

The BTA will accelerate the development of the financial sector in several ways:

- it will impose a rules-based regime on the economy and this, in turn, will improve transparency. Financial institutions mediate and manage risk and this is facilitated by a rules-based, transparent economy. Contract enforcement becomes doable, transactional and business risks are reduced and financial institutions will offer more products and services to a much broader range of customers;
- the BTA will quicken the pace of development of the industrial, agricultural and service sectors through increased investment (foreign and domestic) and improved export competitiveness. This will create demand for more sophisticated financial services and products and will stimulate financial sector development; and

- increased investment and competition from foreign financial institutions will improve the efficiency and competitiveness of domestic financial institutions. Modern financial services and products will be transferred into the Vietnamese market more quickly.

Mr. Chairman, the Bilateral Trade Agreement negotiated and signed by the United States and Vietnam last July provides the tools we need to address the aforementioned issues. Despite many fits and starts, we have made significant progress in our bilateral relationship in the past few years. And we have done so with the bipartisan support of the Congress of the United States. The Vietnamese have worked diligently to address the many concerns that were raised during an arduous negotiation. Disapproval of the BTA would undermine this progress and would undercut the efforts of Vietnamese reformers who are advocating for more openness, more engagement with the international community, and more liberalization in economic affairs.

Equally important to the US-Vietnam bilateral relationship is renewal of the President's annual waiver of the Jackson-Vanik Amendment. I am hopeful that your colleagues in the House of Representatives will reject the proposed resolution of disapproval as they have done in years past.

I am acutely aware that both the BTA and the resolution of disapproval will face tough scrutiny in Congress. These will require strong leadership from members of this committee and others in Congress to move them toward a positive and constructive outcome. I urge you to make that effort – as you have done throughout the development of our relations with Vietnam. I assure you that we in the business community will be working alongside you.

Mr. Chairman and members of the Committee, the decisions that Congress makes on these two issues will have a significant and lasting impact on our bilateral relations with Vietnam. As a representative of Citigroup I urge you to allow the President's waiver of the Jackson-Vanik Amendment to stand and to quickly approve the BTA so that we can continue to build a new relationship with Vietnam, to encourage the long-term process of reform, and to create new linkages between and opportunities for our two peoples.

Thank you.